

**Hurst, Hyla (Strickland)**

---

**From:** Durning, Brian [Brian.Durning@PacifiCorp.com]  
**Sent:** Tuesday, September 19, 2006 3:38 PM  
**To:** MRM Comments  
**Cc:** Potter, Jeff; Mortensen, Karl  
**Subject:** Attn: RIN 1010-AD32

Minerals Management Service,  
Minerals Revenue Management  
P.O. Box 25165  
MS 302B2  
Denver, Colorado 80225

Attn: RIN 1010-AD32

Dear Sir:

**PacifiCorp, a wholly owned indirect subsidiary of MidAmerican Energy Holdings Company, is a regulated electrical company providing retail service in the states of California, Idaho, Oregon, Utah, Washington and Wyoming. The Company submits the following comments in response to the proposed rules by the Interior Department's Bureau of Land Management and Minerals Management Service. The new regulations govern the payment of royalty in geothermal resources produced from Federal leases and the payment of direct use fees in lieu of royalties.**

**Comment:**

While the proposed rule changes by the Department of Interior seek to establish royalty rates for geothermal resources based on the gross proceeds of the sale of electricity, they do not specifically address how these changes would be applied to non-arms length transactions. Recently, PacifiCorp became the lessee of the Roosevelt Hot Springs Participation Area located in Beaver County, Utah. The steam supply is used in the production of generation at PacifiCorp's Blundell Plant. The production of this geothermal plant is utilized by PacifiCorp to supply its ratepayers and is not sold pursuant to an arms-length transaction.

This places the plant in a non-arms length/captive situation. The proposed rule changes are relatively silent on such circumstances. Given this situation, the Company's valuation options appear to be either 1) approach the MMS for alternative valuation determination or 2) elect to convert the BLM leases from Class I, leases issued before August 8, 2005, to Class III and pay direct use fees in lieu of royalties. However, this election process is challenged as the Company must submit historical information to allow the BLM to determine how much royalty the lessee would have paid under the netback method. Royalties, prior to PacifiCorp's acquisition of the leases were paid not under a netback method but rather on the arms length sale of steam. With PacifiCorp's recent acquisition of the leases in the Roosevelt Hot Springs Participation Area, historical royalty payments are not relevant to the current non-arms length/captive situation.

Submitted by:  
Brian Durning  
Manager, Fuel Administration

9/19/2006

PacifiCorp Energy  
201 South Main Street, Suite 2100  
Salt Lake City, Utah  
(801) 220-2234